

## Message Text

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ACTION AGR-08

INFO OCT-01 ARA-06 ISO-00 EB-07 H-02 COME-00 TRSE-00

CIAE-00 INR-07 NSAE-00 XMB-02 STR-04 AID-05 /042 W  
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P R 301830Z DEC 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 3140

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 11032

E. O. 11652: GDS

TAGS: EAGR, ETRD, BR

SUBJECT: BRAZILIAN EXPORT INCENTIVES--SOYBEANS

REFS: A. STATE 295183, B. BRASILIA 6313

1. FOLLOWING IS A SUMMARY OF THE EMBASSY'S PRELIMINARY FINDINGS WITH RESPECT TO GOB'S EXPORT INCENTIVE STRUCTURE FOR SOYBEANS AND SOYBEAN PRODUCTS, BASED ON EXTENSIVE INQUIRIES BY THE CONSULATES GENERAL IN SAO PAULO AND RIO TO TRADE AND GOVERNMENT SOURCES IN THEIR DISTRICTS AS WELL AS BY BRASILIA. THE AGRICULTURAL ATTACHES' OFFICES IN BRASILIA AND SAO PAULO HAVE MADE EXTENSIVE CONTRIBUTIONS TO THESE FINDINGS. A DEFINITIVE DETAILED REPOCT WILL BE SUBMITTED WITHIN THE NEXT TWO WEEKS.

2. IN SUM, OUR PRELIMINARY FINDINGS ARE:

(A) SOYBEAN OIL IS THE ONLY SOYBEAN EXPORT WHICH BENEFITS FROM THE IPI-ICM EXPORT CREDIT SYSTEM. SOYBEANS AND SOYBEAN MEAL DO NOT SO BENEFIT.

(B) SOYBEAN OIL IS ALSO THE ONLY SOYBEAN EXPORT WHICH BENEFITS FROM A DIRECT EXPORT SUBSIDY UNDER THE IPI-ICM TAX REGIME. PRODUCT-BY-PRODUCT, THE SITUATION IS AS FOLLOWS:

(1) SOYBEANS: EXPORTS PAY A 13 PERCENT ICM TAX, VIRTUALLY THE SAME TAX AS PAID ON DOMESTICALLY CONSUMED SOYBEANS.

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(2) SOYBEAN MEAL: EXPORTS PAY A 5 PERCENT ICM TAX, DOMESTIC

SALES (STATE AND INTERSTATE SALES) CARRY A ZERO RATE OF TAX. THE IPI TAX RATE IS ALSO ZERO, BOTH ON DOMESTIC AND EXPORT SALES.

(3) SOYBEAN OIL: EXPORTS ARE EXEMPT, BUT DOMESTIC SALES APPARENTLY CARRY AN ICM TAX AS HIGH AS 15.5 PERCENT (THIS FIGURE IS SUBJECT TO CONFIRMATION). IN ADDITION, EXPORT SALES BENEFIT FROM A COMBINED IPI-ICM TAX CREDIT WHICH HAS BEEN SET AT 12 PERCENT EFFECTIVE JANUARY 1. THE IPI TAX RATE ON SOYBEAN OIL, WHETHER EXPORTED OR SOLD AND CONSUMED DOMESTICALLY, IS ZERO.

(C) SOYBEAN OIL AND SOYBEAN MEAL BENEFIT FROM CERTAIN EXPORT FINANCING ARRANGEMENTS.

(D) IN ASSESSING THE ECONOMIC INCENTIVE EFFECT OF THE SUBSIDIES PROVIDED ON SOYBEAN OIL EXPORTS, THE DISINCENTIVE EFFECT OF THE ICM EXPORT TAX ON SOYBEAN MEAL SHOULD ALSO BE TAKEN INTO ACCOUNT, INASMUCH AS THE OIL AND MEAL ARE A JOINT PRODUCT TO THE CRUSHER AND THE PRODUCTION OF MEAL IN RELATION TO OIL IS SUBSTANTIAL.

(E) THE EMBASSY IS STILL EXAMINING THE CORPORATE INCOME TAX AND OTHER COMPONENTS OF THE BRAZILIAN TAX SYSTEM TO DETERMINE WHAT, IF ANY, OTHER ELEMENTS OF DIRECT OR INDIRECT SUBSIDIZATION THE STRUCTURE MAY CONTAIN.

3. FOLLOWING IS A MORE DETAILED SUMMARY OF OUR FINDINGS TO-DATE, BASED ON SUBSTANTIAL CONTRIBUTIONS FROM CONGENS SAO PAULO AND RIO.

4. IPI-ICM CREDITS. THE ONLY PRODUCT TO BENEFIT FROM THESE CREDITS APPEARS TO BE SOYBEAN OIL. OUR CONTACTS ARE UNANIMOUS ON THIS. NEITHER EXPORTS OF SOYBEANS NOR EXPORTS OF SOYBEAN MEAL BENEFIT FROM THESE CREDITS. IN SEPTEMBER, THE COMBINED TAX CREDIT WAS INCREASED TO 16 PERCENT (8 PERCENT ICM AND 8 PERCENT IPI) FROM THE PREVIOUSLY REPORTED LEVEL OF 10 PERCENT REF B. EFFECTIVE JANUARY 1, FOR THE FIRST QUARTER OF 1976, THIS COMBINED TAX CREDIT WILL BE REDUCED TO 12 PERCENT (6 PERCENT ICM AND 6 PERCENT IPI RESPECTIVELY). THE IPI AND ICM TAX CREDITS ON SOYBEAN OIL MAY BE USED TO OFFSET ANY REPEAT ANY OTHER ICM OR IPI TAX LIABILITIES WHICH THE EXPORTING FIRM HAS FROM ANY TYPE OF OPERATION WHATSOEVER. TO SOME EXTENT, IPI TAX CREDITS MAY BE TRANSFERRED TO OFFSET ICM TAX

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LIABILITIES, AND VICE VERSA. AS A PRACTICAL MATTER, AT LEAST LARGE FIRMS WITH SUBSTANTIAL DOMESTIC OPERATIONS APPARENTLY HAVE SUFFICIENT LIABILITIES UNDER EACH TAX SO THAT TRANSFERS ARE NOT REQUIRED. AT LEAST IN THE LARGE, EFFICIENT COMPANIES SUCH AS THOSE CONTACTED BY CONGEN SA PAULO, THE CREDITS ARE NORMALLY USED WITHIN 30 DAYS. TAX CREDITS ARE POSTED AT THE FIRST OF THE MONTH, AND TAX LIABILITIES ARE USUALLY CANCELLED AT THE END OF THE MONTH.

5. ICM TAXES - DOMESTIC AND EXPORT SALES. OUR SOURCES ARE ALSO AGREED TON ICM TAX RATES. FOR EXPORT SALES, THESE ARE CURRENTLY 13 PERCENT FOR SOYBEANS AND 5 PERCENT FOR SOYBEAN MEAL, WITH SOYBEAN OIL BEING EXEMPT. AS REGARDS SOMESTIC SALES, THE ICM RATE FOR SOYBEANS IS 13 PERCENT IN RIO GRANDE DO SUL AND 14 1/2 PERCENT IN SAO PAULO STATE, THE LATTER DECLINING TO 14 PERCENT EFFECTIVE JANUARY 1. IN PARANA THERE IS NO ICM TAX PAID BUT WHEN THE BEANS MOVE ACROSS STATE LINES THEY BECOME SUBJECT TO AN INTERSTATE ICM TAX CURRENTLY 12 PERCENT, DECLINING TO 11 PERCENT EFFECTIVE JANUARY 1. THE KEY POINT IS THAT FOR SOYBEANS DESTINED TO EXPORTS, THE ICM TAX IS 13 PERCENT, ESSENTIALLY THE SAME AS THE RATES FOR DOMESTIC SALES (EXCEPT FOR AN APPARENTLY ZERO RATE ON SOYBEANS USED WITHIN PARANA). AS REGARDS DOMESTIC SALES OF SOYBEAN OIL, A GOVERNMENT SOURCE ADMITS AN ICM RATE OF 15 1/2 PERCENT (STATE OR STATES NOT SPECIFIED). FOR DOMESTIC SALES OF SOYBEAN MEAL ALL OUR SOURCES AGREE THAT THE ICM RATE IS ZERO--ALLEGEDLY A MEASURE TO SUBSIDIZE AND ENCOURAGE THE USE OF SOYBEAN MEAL WITHIN BRAZIL.

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CIAE-00 INR-07 NSAE-00 XMB-02 STR-04 AID-05 /042 W

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P R 301830Z DEC 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 3141

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 11032

6. IPI TAX RATE. OUR SOURCES AGREE THAT THE IPI TAX ON SOYBEAN OIL IS ZERO. THE SOURCES ALSO AGREE THAT THE IPI TAX ON SOYBEAN MEAL IS ZERO. IN EFFECT SOYBEAN CRUSHERS ARE NOT SUBJECT TO THE IPI TAX. THIS IN TURN RAISES THE QUESTION NOTED IN DEPTTEL PARA 5.B OF HOW CRUSHERS ACTUALLY UTILIZE IPI CREDITS ON SOYBEAN OIL EXPORTS. APPARENTLY, AS

NOTED UNDER PARA 4 ABOVE, IPI TAXES ON PRODUCTS OTHER THAN SOYBEANS WOULD HAVE TO BE UTILIZED AS OFFSET.

7. OTHER BENEFITS. IT IS CLEAR THAT AT LEAST FOR THE TIME BEING SOYBEAN OIL AND APPARENTLY ALSO MEAL BENEFIT FROM A SPECIAL FINANCING SCHEME FOR EXPORTS UNDER CENTRAL BANK RESOLUTION 71. CRUSHERS MAY REPEAT MAY ALSO BENEFIT FROM A DRAW BACK SYSTEM, UNDER WHICH MACHINERY IMPORTED TO PRODUCE PRODUCTS FOR EXPORT MAY BE EXEMPT FROM IMPORT DUTIES-- WE ARE NOT SURE OF THIS. THE EMBASSY HAS NO DEFINITIVE INFORMATION AT THIS POINT ON THE WORKINGS OF THE TAX ON FINANCIAL OPERATIONS (IOF), THE SOLE TAX ON FUELS AND POWER, AND THE QUESTION OF A POSSIBLE REDUCTION IN INCOME TAX LIABILITIES. IT SHOULD BE STRESSED, HOWEVER, THAT OUR GOVERNMENT SOURCE FIRMLY DENISES ANY BENEFITS UNDER THESE TAX REGIMES.  
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